

Audit's[®] MARKET ANALYSIS OF REITS AND REAL ESTATE COMPANIES

Realty Stock Review

December 8, 1989

Volume XX, Number 23

Ranking Reviews: Mixed Results For Health Care, REITs

Since we last reviewed the health care and participating mortgage REIT group in June, investors have become standoffish about most realty stocks. One health care REIT, **HealthVest**, has omitted its dividend, and two equity-sharing mortgage REITs (**ICM Property** and **Copley Properties**) have slashed payout. **Nationwide Health Properties** has deferred dividends until it can sell new stock to repay banks and thus resume payouts (p.6).

As a result, market yields have fallen for the group, with the 15 largest health care leaseback and equity-sharing REITs now yielding 11.35%, down about 0.9% from 12.27% a year ago.

What's happened is that more problem properties have surfaced in some unusual sectors, and both lenders and equity investors have adopted a more cautious stance toward these REITs. In the health care sector, cost and competitive pressures on operators of leased properties have reversed automatic growth in the field. A year ago the widely advertised liquidity and earnings problems at **Beverly Enterprises, Inc.**, the nation's largest nursing home operator, were just surfacing.

Today a number of health facility operators have faltered and **Health Care Int'l. (HII:ASE)**, the sponsor of **HealthVest**, has sustained massive losses which led to severing of its ties with **HealthVest**. These troubles continue to spill over into

healthcare REITs — i.e., those investing in mortgages and leasebacks on healthcare facilities — on a very selective basis.

Top Tier. Investors have reacted with a flight to quality and safety reflected in pronounced two-tier pricing in the leaseback/participating mortgage group.

—**Top tier medical leaseback REITs** are measured by the spread of dividend yield over 5-year Treasuries. By this measure the top tier includes **Health Care Property Investors (HCP:NYSE)**, whose 9.5% dividend yield is 1.7% over the 7.8% yield on Treasuries; **American Health Properties (AHE:NYSE)**, 2.02% over Treasuries; and **Meditrust (MT:NYSE)**, at 3.08% over Treasuries. After that it's almost another full 1% to the next REIT, with yields scaling all the way up to 22% for **Angell Real Estate**, where we see a dividend cut ahead (p. 3).

—The top tier of participating mortgage REITs consists of one name: **Rockefeller Center Properties (RCP:NYSE)** with a 1.15% dividend spread over Treasuries. Our review on p. 7 suggests that RCP is one of the best quality buys among realty stocks today.

Capital Clout. Another measure of top tier REITs is their ability to raise new money in today's skeptical market. The health care leaseback REITs have done well on this score in 1989, and three

(**American Health**, **Health Care Properties**, and **Health & Rehabilitation**) have already raised \$146.5 mil. by selling new shares during 1989.

The year draws to a close with three medical leaseback REITs in registration to sell an estimated \$185.5 mil. new stock early in 1990. That trio: **Health Care Properties**, 2.25 mil. shares, in an offering postponed from Dec.; **Meditrust**, 3.5 mil. shs.; and **Nationwide Health Properties**, 3.5 mil. shs. (see page 6). **HCP** and **MT** would use funds for new investments and repayment of short-term borrowings.

In contrast, none of the participating mortgage REITs have raised new funds this year and are unlikely to do so. Only **Rockefeller Center Properties** is selling above both book value and initial offering price but **RCP** isn't likely to seek to raise new funds. **EastGroup Properties** is selling close enough to book value that it could possibly raise new money. **Copley Properties**, **ICM Property Investors**, **Mortgage Investments Plus**, and **RPS Realty** all sell at such low prices relative to book and/or current asset value that they aren't able to raise new money right now.

Recovery Candidates. But since not all investors will want to hew to the quality line, we review this issue some of the fallen angels. Two are recovery group selections in our **Portfolio Selector** and we affirm our selection in this month's reviews.

ICM Property Investors Inc. (**ICM:NYSE**) is starting to base distributions more on taxable income than on its previous base of "distributable funds" or "cash flow." Thanks to refinancing of one property, **ICM** now should start to rebuild liquidity instead of borrowing to make distributions to shareholders. We think this increases the potential value of **ICM**, although the market doesn't yet agree.

IN THIS ISSUE

RANKING REVIEW ISSUE

Leaseback & Participating Mortgage Group

Mixed Results for Health Care, Mortgage REITs 1-2

STOCK COMMENTS

CRI Ins.Mtg.Assn. & CRI Liq. REIT.2
Hotel Investors Corp. 2

STOCK RANKING REVIEWS

American Health Properties	2
Angell Real Estate Co.	3
Copley Properties	4
Eastgroup Properties	5
ICM Property Investors	5
Nationwide Health Props.	6
RPS Realty Trust	7
Rockefeller Center Properties	7
Universal Hlt. Rlty.	8

Copley Properties Inc. (COP:ASE) share price has dropped far more swiftly than its 14% summer dividend cut, and our analysis suggests that a second modest dividend cut may be needed to bring dividends and cash flow into synch. The market seems to us to have already discounted a second dividend cut, with the likely result that the stock could rise on such news. At half of estimated current value, COP offers good longer term value.

News of Realty Stocks: Three Mortgage REITs Merge

Shares of two new REITs have started NYSE trading after three predecessor entities (two mortgage partnerships and one REIT) were merged. The new REITs are **CRI Insured Mortgage Assn., Inc. (CMM:NYSE)** and **CRI Liquidating REIT, Inc. (CFR:NYSE)**. Holders of the predecessor entities voted to exchange their shares for shares of either of the two new REITs. Predecessors were CRI Insured Mtg. Investments L.P.; CRI Insured Mtg.

Investments II Inc.; and CRI Insured Mtg. Investments III L.P.

CMM (which its sponsors call "CRIIMI MAE" or the "Growth REIT"), expects to become one of the largest and most active investors specializing in federally insured and guaranteed mortgages on multifamily housing. Prior entities had bought such mortgages at discounts and profited when the mortgages were repaid at par. As part of the transaction CMM owns approx. 67% of the shares of CFR, which in turn holds \$410 mil. mortgages and mortgage-backed securities from the predecessors. As these mortgages are liquidated, distributions will flow to CMM. In addition, CMM has arranged \$280 mil. new financing, with funds to be used to buy new mortgages and pay a \$2.31/sh. special distribution on Dec. 29 to CMM shareholders of record Nov. 27. With 20.5 mil. shs. outstanding, CMM is the largest of the two. It has declared a \$0.1303/sh. initial distribution to holders of record Dec. 19; the distribution contains a small

capital gains component, so we estimate annualized payout at about \$1/sh.

CFR, the liquidating REIT, retains the self-liquidating, finite life, unleveraged structure of its predecessors and is expected to be mainly a yield vehicle with occasional return of capital distributions. Initially we see its shares for income. CFR's initial distribution of \$0.2438/sh. is payable to Dec. 19 record holders and the \$0.1372/sh. income component is about \$1.47/sh. annual rate.

Hotel Investors (HOT:NYSE--\$7.50) has agreed to sell substantially all its hotels. HOT will take a \$35 mil. or \$2.88/sh. charge on the sales, reducing net book value to about \$10.57/sh. HOT says it is considering options for two remaining gaming hotels in Las Vegas, including their sale. Previously HOT planned keeping and expanding its gaming hotels. The sale is slightly better than estimated in our Oct. 27 review and we retain HOT shares as a recovery candidate in Portfolio Selector until gaming plans firm.

AMERICAN HEALTH PROPERTIES, INC. (AHE:NYSE) RANK A

all on HLTH/MTG REITS 12/89
on indiv. files
AHE, originally sponsored by American Medical Intl. (AMI:NYSE), owns a portfolio of Sunbelt acute care hospitals net leased to AMI. Now self-administered, AHE seeks to diversify beyond AMI. With AMI's sale of its 1.1 mil. AHE shares (9.8% pre-offer) under AHE's recent offer of 3.5 mil. shares, AHE effectively cut the last point of conflict. AHE raised \$50.2 mil. in the offer by selling shares at \$22. AHE has agreed to finance construction and/or buy properties operated by several third-party operators. We are raising Ranking to A and listing AHE in Portfolio Selector.

Gut Issue: How fast can AHE increase its cash flow? AHE has two sources for cash flow growth: initial spread on new investments and kicker rental income on existing holdings. Until the recent offering, investors had to depend upon additional rentals for growth. The offering gives AHE a second growth path.

1. Spread on new investments. AHE has committed \$33.5 mil. to fund two projects to be operated by Four Winds, a quality privately owned hospital operator. The two: (1) A \$16 mil. first mortgage participating loan to build a 60-bed psychiatric hospi-

tal in Saratoga Springs, N.Y. (2) A \$21 mil. participating first mortgage loan for the first 60-bed phase of a planned 165-bed hospital in the Chicago suburb of Lemont, Ill.; Phase I opened in June 1989 and AHE expects to advance another \$14 mil. upon completion of Phase II. Both loans carry 12.5% initial interest with AHE receiving 5% of revenues over base years of 1989 and 1991 respectively.

Additionally AHE has agreed to fund construction of a \$12.5 mil., 60-bed rehabilitation hospital in Plano, Texas to be operated by Continental Medical Systems (CONT:OTC). The facility is expected to be opened in the fall of 1990. AHE will buy the hospital upon completion and lease it back to CONT for base rent plus percentage rents based upon revenue growth. This is AHE second such facility financing with CONT: In June 1988 AHE bought 97% interest in an 80-bed rehabilitation hospital next to AHE's Denver hospital and net leased it to CONT; AHE previously provided \$12 mil. construction financing.

In the Dec. quarter AHE expects to acquire two psychiatric hospitals in Boston, MA for \$41 mil.

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2. Additional rents. AHE's additional rentals on older leases are growing strongly and should add 19¢/sh. to 1989 income. AHE receives 5% of incremental rents over minimum base rents and reports these rents on a one-quarter lagged basis. This makes 1989 the first really big year for kicker income and gives promise of more growth ahead.

Assets and current value. As a result of this strong rental growth in AHE's hospitals, AHE now says its original portfolio has appreciated by about \$5.50/sh. This puts estimated current asset value at about \$25/sh.

AHE now owns twelve acute care, rehabilitation and psychiatric hospitals with 2,044 licensed beds, seven bought from AMI for \$271 mil. appraised value or \$168,400/bed. AHE holds \$97 mil. in participating first mortgage loans on three facilities (all yielding 12.5%) operated by Four Winds partnerships and by CONT.

CFS and dividends. Cash flow should rise about 18% to \$2.58/sh. in 1989, due to sharp rise in percentage rent and a special payment from AMI to settle guarantees. We expect more modest growth in 1990 of about 4% to \$2.68/sh. CFS. Net spread

on new investments should add about 6¢/sh. in 1990. AHE increased the dividend by 1.8% (\$0.01/sh quarterly) to a \$2.28 annualized rate, AHE's the seventh consecutive quarterly boost.

Advice: Buy shares for long term growth and current yield. AHE operations have a margin of safety; initial facilities generate over 3 times lease coverage, providing strong buffer. Involvement in construction projects may boost risk moderately. (MJH)

AHE:NYSE Rank A Dec. years 13.88 mil. shs.						
Price: \$23.38	Div. \$2.28	Yld. 9.8%	P/CF Ratio: 9.1			
Year	Op.EPS	Op.CFS	Div.	High	Low	Yield Range
1987	\$1.34a	\$1.84a	\$1.72a	\$20.00	\$12.00	NM
1988	1.58	2.19	2.10	19.50	14.88	4.1-10.8%
1989E	1.60	2.58	2.26	24.00	17.88z	12.6-9.4z
1990E	NE	2.68	2.30			
a-Approx. 10.5 mon. beginning Feb. 20. z-To date.						
Share data: Institutions own 26.3%; insiders 2.0%. Avg. weekly volume: 206,700 sh.						
Finances 9/89 (Mil. \$): Debt: \$158.97M; Equity: \$258.25M; Accum. deprec.: \$16.71M.						
Equity + deprec. (combined \$19.81/sh.). Debt/equity ratio: 0.62-1.						
Address: 11150 Santa Monica Blvd., Ste. 800, L.A., CA 90025. (213) 477-9399.						

ANGELL REAL ESTATE CO. (ACR:NYSE) RANK D *ACR 12889*

ACR, a healthcare leaseback REIT, converted from MLP to REIT status in Jan. 1988. ACR now owns 77 nursing homes with 5,152 beds. All ACR facilities are net leased and located in Colo., Ill. Ind., Ky., N.C. and Tenn. Concerns about ACR's initial sponsor and attendant financing have sent shares into a recent tailspin and we suspect a dividend cut is imminent. That new concern arises just as concerns are waning about Beverly Enterprises (BEV:NYSE), the troubled healthcare operator which leases 44% of ACR's facilities. We are reducing Rank to D on ACR shares.

Gut Issue: Can ACR solve a looming debt dilemma? ACR must refinance by replacing \$32.9 mil. of unsecured bank debt with up to \$65 mil. of secured financing. Deutsche Bank Capital is seeking to place the new debt, replacing loans from NCNB Corp. and Canadian Imperial Bank of Commerce. NCNB says its \$3 mil. unsecured credit line won't be renewed beyond March 1, 1990. This rebuff to Winston-Salem, NC based ACR from a major hometown lender worries us.

EPS, CFS and dividend impact. The \$1.52/sh. dividend is adequately covered by operating cash flow for now but ACR says that with equity now costing in excess of 20%, it must consider cutting the dividend to reduce debt and build equity. ACR says it has no intention of eliminating payout but our only question is how far ACR will cut the 38¢/sh. quarterly dividend. Our best guess is payout could wind up between 15¢ and 25¢/sh. quarterly. Banks will obviously have major input on the payout level.

ACR shares seem to suffer by an enormous gap between reported net income and cash flow, mostly due to its relatively high leverage. Because investors are puzzled by the gap, the stock hasn't won a wide following. ACR lost 13¢/sh. in the nine

month to Sept. and should report losing about 20¢/sh. for 1989. Operating cash flow in contrast should be about \$1.75/sh. for 1989. We cannot estimate 1990 results.

Gut Issue No. 2: Could problems with ACR's sponsor be triggering the banks' harsh treatment of ACR? Sponsor Angell Care Inc. (ACI, a private company) seems to be laboring and ACR is distancing itself from ACI through a series of complex transactions. Three of nine facilities acquired in 1988 from affiliates of sponsor ACI have now been sold back to ACI. Transactions involving ACI are:

In June 1989 ACR agreed to release Angell Care Inc. as guarantor of the leases on five nursing homes. ACR also agreed to accept a waiver of additional rents on eight leases in which ACI is lessee and agreed to pay an additional 3.4% annual interest on \$2.8 mil. debt due in 1990. (ACI assumed \$1.6 mil. of this debt in the reacquisition of two facilities in Sept. 1989.) In return ACR received the \$492,001 escrow fund guaranteeing the leases and no longer pays a \$25,700 monthly fee to ACI. Bottom line, ACR stands to improve EPS by 7¢/sh. annually as a result, but also loses ACI's guarantee and any prospect for future rent increases.

In Sept. ACI bought back facilities that were in default to ACR because of a dispute ACI was having with a third-party operator. ACI took out debt of \$9.5 mil. on a sale price of \$9.4 mil., using the \$72,604 difference to reduce ACR's rent receivable from ACI affiliates.

Asset diversification. Before the recent resales, ACR had diversified away from BEV by acquiring nine facilities from sponsor ACI in Mar. 1988. In Sept. 1988 ACR added 7 facilities acquired from Indianapolis retirement community developer The

Forum Group for \$21.5 mil. or \$28,515 per bed, using 11.25% first mortgage debt. Now ACR is planning yet another diversification by acquiring 13 nursing homes with xxxx beds in exchange for 665,277 shs. of common, or an 18% expansion of shares outstanding. ACR holders will vote on the acquisition early in 1990, assuming ACR's sinking stock price doesn't kill the deal.

Four independent operators run non-BEV facilities. All homes are on a net lease basis. BEV-leased centers are mostly located in Ind. (four in Ill.), as are the majority of ACR's other homes.

Advice: Hold or avoid shares for now. Until uncertainties about replacing existing bank debt are resolved, shares will not be attractive except for high-risk investors. (MJH/KDC)

ACR:NYSE Rank D Dec. years 3.62 mil. shares
Price: \$6.88 Div.: \$1.52 Yld.: 22.1% Price/CFS 3.9X

Year	Op.EPS	Op.CFS	Div.	High	Low	Yield
1986	\$(0.20)a	\$0.09a	\$0.26	\$16.00	\$13.25	NM-NM
1987	0.25	1.65	1.50	15.88	9.63	16-9%
1988	(0.21)b	1.68	1.52	12.25	8.00	18-12z
1989E	(0.20)	1.75	1.52	11.63	8.13z	
1990E	NE	NE				

a-Initial period from June 30, 1986. b-First year operating as REIT. z-To date.

Share data: Institutions own 0.3%; insiders 2.2%. Avg. weekly volume: 23,500 shs.
Finances 9/89 (Mil. \$): Debt: \$93.8M; Equity: \$35.8M; Deprec.: \$11.3M. Equity plus deprec. equals \$13.02/sh. Debt/Equity ratio: 2.6-1.

Address: Box 48, 915 W. Fourth St., Winston-Salem, NC 27102. (919) 723-7580.

COPLEY PROPERTIES, INC. (COP:ASE) RANK B

COP is an equity participating mortgage REIT, investing in lucrative (but riskier) to-be-built properties via mortgages and joint ventures. COP typically invests in quickly-built and leased industrial and research/development buildings. COP acquires 50%-60% equity interests by funding essentially all land and improvement costs, with the goal of buying properties at whole-sale cost. Shares hold a B Rank and position in Portfolio Selector.

Gut Issue: Is COP's current cash flow sustainable enough to stabilize the falling dividend and share price? COP's September CFS fell 32% to \$0.30/sh. from the \$0.44/sh. posted in the 1988 quarter. CFS has fallen 14% to \$1.07/sh. for the nine months. Tracking this decline have been the dividend payout and stock price. COP's Sept. dividend was \$0.36/sh. (\$1.44 annualized), off 14% vs. 1988. Share price has fallen 34% in the year to date. We see the dividend slipping by another notch to about \$1.32/sh. level, the lowest estimate we've seen. We think the market already has discounted this second dividend cut.

Expense cap. How fast can COP turn around its sagging income stream? To help stem the slide COP's advisor, Copley Real Estate Advisors, subsidiary of New England Life, will cap operating expenses at \$650,000 yearly, 35% under historical levels, for about 9¢/sh. annual savings starting in 1990 and possibly extending into 1991. Included in this austerity program is a temporary reduction in the management fee. Also, COP has determined it should reduce its position in low- or no-cash flow development properties and increase its holdings of seasoned properties that offer less growth potential but relatively high cash yield. The advisor mentions possible disposition of one or two development properties in 1990 (the advisor would receive 10% of any gain at disposition) and the tenant at Phase I of University Park, Santa Barbara, is exercising its repurchase option this qtr. at a gain to COP.

Portfolio revival? The biggest leasing concern for COP is replacing the 69% tenant at 189,000 sq. ft. Metro Business Park in the soft Phoenix market when the tenant's lease runs out this month. Although COP owns only 50% of the complex, cash flow will be reduced by approx. \$0.02/sh. per quarter until the space is filled. This cash flow slippage however is already reflected in current results as income from this property has been held back since the March 1989 quarter in anticipation of having to meet

operating expenses with a vacancy that may last from 1 to 1-1/2 years. Next year could be a difficult one for COP in Phoenix as another 21% of the building's space comes due for renewal.

Space has been leasing slowly at Los Angeles Corp. Center in Monterey Park, Calif., and Andrews Ave. industrial property in Pompano Beach, Fla. COP halted interest accrual in July 1988 and July 1989 respectively on these two, and they have cost COP 20¢/sh. lost income in 1989. Atlanta and Fla. properties have been leasing well as has the balance of COP's portfolio. In the Dec. quarter COP hopes to refinance University Business Center Phase II for \$10 mil. to pay down bank lines.

Assets and current value: COP's \$73.6 mil. net real estate investments at 9/89 are: 52% construction loans; 39% joint ventures; 7% mortgage loans; and 2% land/options. COP has funded \$83.0 mil. in nine properties (with 2.6 mil. sq. ft., 90% leased) out of a total of \$91.0 mil. committed. Six properties are under development with 750,000 sq. ft., 37% leased. COP affirms a Dec. 1988 appraised value of \$23.37 per share.

Advice CFS is quickly approaching stabilization at about \$1.34/sh. level and shares are reaching a point where they becomes a "buy." Shares trade at a very attractive 50% discount to appraised value. Weak market in Phoenix will cause property there to be a drag, but leasing of other properties is progressing well and is adding to cash flow. (MJH)

COP:ASE Rank B Dec. years 4.01 mil. shares.
Price: \$11.38 Div. \$1.44 Yld. 12.7%

Year	Op.EPS	Op.CFS	Div.	High	Low	Yld.Range
1986	1.36	1.51b	1.65	20.00	16.38	10.1-8.3%
1987	1.06	1.59b	1.68	22.88	14.63	11.5-7.3
1988	0.94	1.58b	1.68	20.00	16.75	10.0-8.4z
1989E	0.68	1.38	1.56	18.25	10.00	15.6-8.5
1990E	NE	1.34	1.32			

a-Began operations 5/85. b-Per Audit; Trust says: '86, \$1.63; '87, \$1.80; '88, \$1.73. z-To date. NM-Not meaningful.

Share data: Institutions own 28.2%, incl. Cohen & Steers Cap. Mgt. at 7.08%; insiders less than 1%. Avg. weekly volume: 33,000 shs.

Finances 9/89 (Mil. \$): Debt: \$12.2M; Equity: \$69M or \$17.25 sh. Debt/Equity Ratio: 0.18-1. Current value 12/88: \$23.37/sh.

Address: 399 Boylston St., Boston, Mass. 02116. (617) 578-1200.

EASTGROUP PROPERTIES (EGP:ASE) RANK B

EGP is gradually exiting the land leaseback business in favor of operating properties. EGP is selectively selling leasebacks, generally at handsome gains, and seeking to reduce nonearning holdings. EGP is one of six REITs and companies under the umbrella of Eastover Group, based in Jackson, Miss. The stock is thinly traded, since Eastover Group controls 38.0% of shares and institutions control another 30.3%. We continue EGP's B Ranking and its spot in Portfolio Selector.

Gut Issue: How quickly can EGP cover its dividend from operations by paring nonearning and low-earning investments? The market is clearly worried that EGP may not be able to sustain payout and the stock has sold off recently. EGP has been selling its appreciated leasebacks to cover the \$2.60 dividend, which returns 10.9% on book value. To cover payout from operating cash flow, EGP must overcome two problems:

Nonearning assets. About 22% of its \$87.5 mil. invested assets are not earning income. EGP's three largest nonearning investments are all land-related, so a quick turnaround isn't expected in view of today's soggy land market. But improvements in the largest could cut the drain by 8¢-9¢/sh. The nonperforming trio:

— North Shore Business Park in Hercules, Calif., an 85-acre business park land development in San Francisco's East Bay begun in 1984. EGP now owns 100% of the development partnership at \$13.6 mil. investment, but the park's development costs and slow sales/leasing continue to drain cash flow by about 40¢/sh. yearly. EGP sold two office sites in June for 20¢/sh. gain, reducing gross investment and stanching the drain by 3¢/sh. annually. EGP is also refinancing a land development improvement bond at an estimated 5.5¢/sh. EPS improvement.

— Two other land investments totaling \$6.3 mil. seem more intractable. They are a \$2.68 mil. land loan in North Bergen, N.J. and \$3.66 mil. undeveloped land in Jefferson Parish, La. near New Orleans.

Low-earning assets: EGP is near adding 30¢-34¢/sh. to EPS by boosting yield on two other low-earning assets. In Dec. it swapped its shareholdings in EastPark Realty for a package of earning mortgages, adding 17¢/sh. annualized. EGP also hopes to sell four foreclosed motels and reinvest proceeds to yield 15¢/sh.-plus. EGP already has recovered all its investment in the motels, so any resale proceeds will be found money.

Meantime EGP is busily swapping its land leasebacks for a diversified portfolio of properties, mainly industrial buildings. So far EGP has traded tax-free parcels under two apartment

complexes and five shopping centers for nine warehouses in Dallas, Denver and Orlando. This gives EGP 859,000 sq.ft. industrial space, almost fully occupied, which it says is generating more cash flow than the leasebacks. Also, in Jan. 1989 EGP swapped land beneath a Wichita Falls, Tex. shopping center for full ownership of a 201,000 sq.ft., 13-story office in Tyson's Corner, Md.; the office is 92% leased.

Earnings and dividends. As EGP accelerates its shift toward owned-and-operated properties, its results have to be evaluated more in line with the normal cash flow model for equity REITs. Gross cash flow before mortgage principal payments is improving (43¢/sh. in the Sept. qtr.) and should reach about \$1.60/sh. in 1989. If all EGP's portfolio changes fall into place, we think operating cash flow could reach \$2.25/sh. or better in 1990. Right now, operating income is volatile on a quarterly basis and not covering payout, which should continue to unsettle the market. We see about 95¢/sh. operating EPS for 1989, with improvement to about \$1.40 for 1990. EGP reported \$5.65/sh. gain on property sales through September, so capital gains are clearly supporting the dividend now. These gains should be reduced in 1990 while cash flow from operating properties picks up.

Advice: Buy to \$22. EGP is buying bread-and-butter well-leased properties in depressed areas carrying appreciation potential. Nonearning and low-earning assets are being pared to boost EPS. The thinly traded shares are difficult to buy, so place orders with limits. (KDC)

EGP:ASE Rank B Dec. years 2.50 mil. shares						
Price: \$22.00		Div. \$2.60		Yld. 11.8%		
Year	Op.EPS	Cap.Gns.	Div.	High	Low	Yield Range
1985a	\$2.70	\$1.70	\$6.96b	\$40.00	\$30.25	23-17%
1986a	2.36	0.74	4.17b	33.25	27.25	15-12
1987a	1.92	0.59	2.90b	31.75	19.63	7-9
1988	1.50	3.48	2.60b	25.25	20.25	13-10
1989E	0.95	1.60	2.60	25.00	19.75z	13-10z
1990E	1.40	2.25	2.60			
a- Nov. years. b-Incl. cap gains distributions: '85-\$4.35; '86-96¢; '87-\$1.37; '88-9¢. z- To date.						
Share data: Institutions own 30.3%; Eastover Group company and insiders, 38.0%. Avg. weekly volume: 14,900 shs.						
Finances 9/89 (Mil.\$): Debt: \$26.3M; Equity: \$59.6M, equal to \$23.82/sh. Debt/equity ratio: 0.44-1.						
Address: Box 22728, 300 One Jackson Pl., Jackson, MS 39225. (601) 948-4091						

ICM PROPERTY INVESTORS INC. (ICM:NYSE) RANK B

ICM is an equity-financing REIT that invests in both debt and equity positions, individually and thru joint venture partnerships, in a nationally diversified portfolio of 11 office properties with 1.34 mil. sq.ft. Soft leasing markets have reduced cash flow. Accounting for ICM's complex ownership structure obscures results, since ICM owns two properties outright and holds from 50% to 86% ownership in joint ventures owning the remaining nine properties. Our B Rank is maintained and we keep ICM as a recovery play in Portfolio Selector.

Gut Issue: Could ICM be forced to raise the dividend? Since our June 1989 review, ICM has cut payout to 48¢/sh. annual rate, so we may sound premature in talking about an increase. But property operations are steadily improving: All properties are 90% leased at Sept. 1989, vs. 86% leased in March and 75% a year ago. Rent concessions are burning off and 86% of space is now rent paying, vs. 71% in March and 63% a year ago. ICM is the only REIT which strips the mystery from rental concessions in today's office market by reporting the difference between amounts

Advice: We retain shs. in Portfolio Planner; they are buys up to \$8/sh. We think current value of assets is about \$13 and purchases to \$8 should work out well. (KDC)

Year	Op.EPS	Tax.EPS	Div.	High	Low	Yield
1985	\$1.19	\$ NM	\$1.21	\$19.75	\$14.13	6- 9%
1986	0.67	1.26	1.39	16.25	13.25	9-11
1987	d0.90a	1.04	1.48	15.50	8.00	10-19
1988	d0.73	0.91	0.91	11.50	8.50	12-16
1989E	d0.60	0.51	0.92	10.50	7.25z	
1990E	NE	0.56	0.56			

a-Incl. \$0.73/sh. investment writedown. z-To date

Share data: Institutions own 34.6%; insiders 3.9%. Avg. weekly volume: 51,500 shs.

Finances 9/89 (Mil. \$): Debt: \$65.6M; Equity: \$68.9M; Accum. deprec.: \$3.9M; total equity plus deprec.: \$13.27/share. Debt/equity ratio: 0.95-1.

Address: 600 Third Ave., New York, N.Y. 10016. Phone: (212) 986-5640.

NHP:NYSE Rank B Dec. years 8.20 mil. shs.						
Price: \$13.00		Div.\$1.00		Yld. 7.7%		
Yr.	Op.EPS	Op.CFS	Div.	High	Low	Yield Range
1986	\$1.62	\$2.20	\$2.13	\$29.00	\$19.38	11.0-7.3%
1987	1.57	2.38	2.30	26.38	16.50	13.9-8.7
1988	1.32	2.34	1.79	20.38	9.75	18.4-8.8
1989E	NE	2.20	1.00	15.50	10.25z	9.8-6.5z
1990E	NE	2.00b	1.50b			

b-Assuming pending Jan. 1990 stock sale is completed. z-To date. NE-No estimate.

Share data: Institutions own 35.6%; insiders 0.2%. Avg. weekly volume: 94,600 shs.
Finances 9/89 (Mil.\$): Debt: \$96.9M; Equity: \$150.3M; Accum. deprec. \$21.0M; Equity + deprec: \$20.91/sh. Debt/equity ratio: 0.64-1.
 Address: 35 N. Lake St., Suite 540, Pasadena, Cal. 91101. (818) 405-0195.

RPS REALTY TRUST (RPS:NYSE) NOT RANKED P. 11

Since coming public in December 1988 via merger of three REITs and one smaller mortgage limited partnership into a new open-ended REIT, RPS has moved to establish itself as a sophisticated commercial property lender. During this first year, one New York City office building loan has been repaid and RPS has reloaned the money on two Chicago offices. Earnings have advanced modestly and dividends have just been increased 5%. By becoming independent a year ago, RPS appears to have sidestepped the liquidity ills of initial sponsor **Integrated Resources Inc.** (IRE:NYSE), which defaulted on \$955 mil. debt in June and is trying to work out a voluntary restructuring (RSR, Aug. 11). But until Integrated settles its affairs, we are not Ranking RPS shares for fear of some spillover.

Gut Issue: Could RPS get hurt by Integrated's ills? No negative involvements have surfaced, and we think there's a small chance that RPS could benefit from Integrated's liquidity needs. Our reasoning: RPS acquired the advisory companies to the four constituents by issuing to IRE a \$24.25 mil. zero-coupon note, accruing interest at 9.5% for 13 years. At maturity RPS would owe IRE \$81 mil. But IRE is now so starved for cash that it's possible IRE could ask RPS to prepay the note at a discount.

RPS management says that isn't likely since the notes were downstreamed to two IRE life insurance subsidiaries, which are on the block. Further, RPS uses the cash flow from this zero-note as an offset to non-cash accrual of interest income on its mortgage loans. Without this offset, RPS would have to borrow part of the cash it pays as dividends to shareholders. So while a one-shot gain on prepayment of the IRE note might sound neat, RPS's lending strategy would suffer if IRE were to prepay the note.

Assets and operations: RPS makes equity-sharing loans in which RPS may receive contingent interest based upon rents and/or value of the property. On all but four loans, some interest is not paid in cash but accrued for payment at maturity. RPS generally lends on older properties with low-rent leases it hopes will be rolled over at higher rents. RPS has loaned \$171.4 mil. to 40

borrowers, divided \$107.5 mil. or 63% retail properties; \$42.2 mil. or 25% office; and \$21.8 mil. or 13% industrial. Twenty-eight loans are wraparound mortgages, in which RPS's loans are subordinated to existing first mortgages totaling \$177.4 mil.

Despite this aggressive portfolio, RPS reports recent payment problems at only two loans, both secured by Woodbridge, N.J. offices; both have now been brought current. Also, RPS took a \$2.3 mil. write down of a Dallas industrial loan in 1988. RPS has \$54 mil. cash for investment.

Earnings and dividends. RPS earned 63¢/sh. in the nine months through Sept. 30, up 19%. EPS included 4¢/sh. from contingent interest and prepayment income, down from 6¢. RPS has just boosted payout 5.3% to 20¢/sh. quarterly (80¢ yearly), with 2¢ quarterly coming from accrual of non-cash interest on the Integrated note. A 4¢ special is also being paid to holders of record Dec. 29.

Advice: Managers and trustees of RPS have bought about 650,000 RPS shs. (2.2%) since RPS went on its own. Even with this vote of confidence, RPS is still linked with its former sponsor in investors' minds and shares sell at \$5.75 to yield 13.9%, and a modest 17% discount to \$6.95/sh. book value. We believe RPS was always run independently of IRE and think the shares have recovery potential for business risk accounts. (KDC)

RPS: NYSE Rank: None Dec. years 29.28 mil. sh.
Price: \$5.88 Div. \$0.80 Yld.: 13.6% Price/EPS: 7.4E

Year	EPS	Div.	High	Low	Yld. Range
1986a	\$0.66	\$0.81	No market		NM
1987a	0.76	0.88	No market		NM
1988a	0.93	0.91	\$7.50	\$6.38	NM
1989E	0.80	0.76	6.63	5.38z	14.1-11.5%
1990E		0.80			

a-Pro forma for prior entities. Z-to date.

Share data: Detroit Policemen and Firement Pension Plan owns 5.9%; other institutions own 1.2%; Insiders 2.3%. Avg. weekly volume: 111,500 sh.
Finances 9/89 (Mil.\$): Debt: \$26.0M; Equity \$203.6M or \$6.95/sh. Debt/equity ratio: 0.13-1.

Address: 733 Third Ave., New York, N.Y. 10017. (212) 370-8585.

ROCKEFELLER CENTER PROPERTIES INC. (RCP:NYSE) RANK A RCP 12889 P. 13

RCP holds a \$1.3 bil. mortgage convertible in 11 years (during the month of Dec. 2000) into 71.5% interest in the Manhattan urban center of the same name. RCP shares leaped into the spotlight with the Oct. 1989 purchase of 51% of Rockefeller Group, Inc. (RGI) by Mitsubishi Estate Co. of Tokyo. Since Rockefeller Group owns the remaining 28.5% of Rock Center, Mitsubishi winds up with about a 14% undivided interest in Rock Center. Our analysis of Mitsubishi's intentions leads us to believe that RCP is one of today's best values among realty stocks. Our Rank is upgraded to A and Portfolio Selector position is maintained.

Gut Issue: Will the Japanese start buying RCP stock? The economic logic impelling Mitsubishi to buy RCP shares is so overwhelming that we think Mitsubishi has very little choice. Our reasoning:

—First, Rock Center's cash flow is dedicated to paying interest on RCP's mortgage, so Mitsubishi can't tap the Center's cash flow. Without this cash source, Mitsubishi's return on the \$846 mil. it paid for 51% of RGI is believed to be very low, perhaps in the 3%-4% range initially.

—Second, Mitsubishi can improve its overall yield substantially simply by buying RCP shares and/or two convertible debenture issues. For example, if Mitsubishi committed \$100 mil. yearly to buy RCP shares, by 1995 it would have increased its assumed return by 50% and would own about 29% of fully converted RCP common and 35.2% of Rock Center. Buying the convertibles yields the same results.

—Third, programmed purchases would, by our estimate, let Mitsubishi capitalize upon a big bulge in lease renewals set for 1994. About 30% of Rock Center's leases expire in 1994, vs. about 5% of space rolling over in recent years. These old leases

are about 25% below today's market, so the looming surge in rollovers should boost cash flow significantly. We estimate Rock Center will turn cash flow positive in 1991; break over \$25 mil. positive cash flow in 1996, and be running \$50 mil. or more positive cash flow when RCP's mortgage matures in 2000.

Operations. RCP's ultimate value still hinges upon rental operations at the underlying Rockefeller Center in mid-Manhattan. The 6.2 mil. sq. ft. complex was 97.7% occupied at Sept. 30, vs. about 87% for midtown Manhattan, and new rents run \$40-\$45/sq.ft. The Center has signed a long-term lease assuring NBC's continued tenancy at about 91% of rents projected in RCP's 1985 offering. In the face of continuing Manhattan office construction, RCP has retained a strong base with smaller tenants (average lease is about 2,000 sq.ft.). The Center's negative cash flow is diminishing and should turn positive in 1991. All this means the Center is performing about as projected in the teeth of Manhattan's overbuilt office market.

Current value and total return. Rock Center's appraised value has been rising at about 5% annually and should end 1989 at about \$1.89 bil., which gives RCP \$15.25/share current value fully converted. The Center's performance should translate into longer-term value gains in the 5%/yearly range — or enough to give RCP a value of about \$25.50-\$26/sh. fully converted in

2000. RCP raised payout to a \$1.88/sh. annual rate in the Sept. qtr. and we expect further modest increases over the years ahead. Total return — dividends plus estimated value in 2000 — work out to a 10.38% discounted return over the next 11 years for very long-term investors.

Advice: We continue to see RCP common as an opportunity to earn returns on a world-class property that are well above the going rates for premium properties. Mitsubishi's entry into the picture only sweetens the pot. (KDC)

RCP:NYSE Rank A Dec. years 37.5 mil. shs.

Price: \$21.13 Div. \$1.88 Yld. 8.9%

Yr.	Op.EPS	CFS	Div.	High	Low	Yield Range
1985	\$0.35b	\$0.50	\$0.44	\$20.38	\$17.50	10.1-8.6%
1986	1.26	1.73	1.76	22.13	17.88	9.8-8.0
1987	1.22a	1.83	1.80	22.50	14.25	12.6-8.0
1988	1.19a	1.65	1.84	20.38	17.38	10.6-9.0
1989E	1.09	1.38	1.85	22.13	18.50z	10.0-8.4z
1990E	1.10	1.50	1.88			

a-Plus debt repurchase gains: '87-\$0.11; '88-\$0.13. b-From Sept. 19, 1985. z-To date.

Share data: Institutions own 25.2%; insiders 0.7%. Avg. weekly volume: 204,000 sh. **Finances** 9/89 (Mil.\$): Debt: \$481.3M; Equity: \$621.1M equals \$16.31/sh.

Address: 1166 Ave. of Americas, New York 10036. (212) 841-7760.

UHT 1289 214 UNIVERSAL HEALTH REALTY INCOME TRUST (UHT:NYSE) RANK A

UHT owns eight acute-care hospitals and three psychiatric hospitals with a total of 1,385 beds leased back to sponsor Universal Health Services Inc. (UHSIB:OTC). UHSIB owns 6% of UHT shares. UHT also holds a first mortgage loan on a 90-bed psychiatric facility, which has just gone into default. Growth has been steady and management follows a conservative path in financing and acquisitions. Our A Rank is held and shares continue in Portfolio Selector for income.

Gut Issue: What long-term effects could flow from default of UHT's only mortgage investment, 90-bed Lake Shore Hospital? For the present UHT has drawn on an escrow fund to pay delinquent interest on the loan to Lake Shore Hospital, Manchester, N.H. UHT says it believes that Lake Shore's cash flow is adequate to service its debt and that even if the default continues, UHT's \$0.37/sh. dividend will be unaffected. The investment nets about \$0.06/sh. per year.

But longer term the default could hurt UHT. UHT drew down its bank lines to extend a \$13 mil., 10-year loan at an average of 13.7% interest. But if the loan doesn't produce income after the escrow runs out, or if the hospital's cash flow won't pay the contract interest, UHT would be on the hook to pay interest on the underlying bank line. The default also clouds the value of UHT's equity kicker, which gives UHT 90% of the hospital's appreciation up to \$3.6 mil. in the first five years and 10% of appreciation above that point.

Conservative UHT has been moving in the direction of construction financing. UHT committed \$7.9 mil. for sale/leaseback financing for a new 60-bed rehabilitation hospital in Evansville, IN which it acquired for \$7.5 mil. (or \$125,000 per bed) in the June 1989 quarter. UHT has also committed to provide \$3.3 mil. of construction and mortgage financing for leasehold improve-

ments to be performed at the Meridell Achievement Center, Austin, Tex. psychiatric hospital.

EPS, CFS and dividends. Sept. nine month EPS rose 2% to 89¢/share. UHT's CFS rose by 4% to \$1.21/sh., primarily on interest income from Lake Shore. UHT also wrote-down \$235,000 on an investment in another health care REIT which penalized Sept. results by 3¢/sh. While UHT's 37¢/sh dividend looks secure for the Dec. quarter, cash flow should remain flat until Lake Shore is resolved. We lower our 1989 CFS estimate to \$1.60 per share and see little or no growth in 1990.

Advice: Hold shares for yield. UHT is still one of the most conservative health care REITs with a debt/equity ratio of 0.59-1. While UHT's mortgage loans offer attractive yields relative to returns available today for equity ownership, they have also introduced a higher risk profile for the stock. (MJH)

UHT:NYSE Rank: A Dec. years 7.05 mil. shs.

Price: \$11.88 Div.: \$1.48 Yld.: 12.5% Price/cash flow: 7.4X

Year	EPS	CFS	Div.	High	Low	Yield
1986	\$0.02	NM	\$0.00	\$10.75	\$10.13	0-0
1987	1.05	\$1.37	1.33	11.63	8.25	16.1-11.4%
1988	1.15	1.55	1.38	12.38	9.25	14.9-11.2
1989E	1.20	1.60	1.45	14.88	11.38z	12.9-10.0z
1990E		1.60				

z-To date.

Share data: Institutions own 40.6%; insiders 0.7%, the advisor 6%. Avg. weekly volume: 56,900 sh.

Finances 9/89 (Mil.\$): Debt: \$53.6M; Equity: \$91.2M; Accum. deprec.: \$7.8M; Equity + deprec.: \$14.05/sh. Debt/equity ratio: 0.59-1.

Address: Universal Corp. Center, 367 S. Gulph Rd., King of Prussia, Pa. 19406. (215) 265-0688.